PODCAST TRANSCRIPTION SESSION NO. 212 - ARAD LEVERTOV

Welcome to the Lend Academy Podcast, Episode No. 212, this is your host, Peter Renton, Founder of Lend Academy and Co-Founder of the LendIt Fintech Conference.

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Peter Renton: Today on the show, I am delighted to welcome, Arad Levertov, he is the CEO and Co-Founder of Sunbit. Now Sunbit are a very interesting company, they've been flying under the radar somewhat, but I think you're going to hear about them more and more because they have a really unique and interesting approach. You know, they are a lender, they actually work though in the offline world as opposed to the online world, they work at the point-of-sale.

They have a number of different verticals, specifically, the car repair vertical is a big one for them, and they're able to approve a very large percentage of applicants, while at the same time keeping interest rates low and actually defaults low as well. So, how they do that, we actually get into it in some depth, we talk about their underwriting, what their approach is there, how they're able to do it, how they're able to make a very quick and painless process for the consumer when they are applying for this loan.

There's a bit of a secret sauce they share there. We talk about who this typical consumer is, how they find these customers, the different verticals they're operating in and what they've got planned for their future. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Arad!

Arad Levertov: Thank you, Peter, happy to be here.

Peter: Okay, so I I like to get these things started by giving the listeners a little background about yourself. You've had an interesting career, not very typical of a fintech executive, I would say, including stints in the military, so why don't you give us a little bit of background about what you've done in your career to date.

Arad: Sure, so actually, you're right, I started my career at the military, in the Special Forces, where I spent five years, then I worked at Intel Electronic as a Manufacturing Manager. After moving to the US, I actually got into the fintech world when I joined a company that was providing online lending based out of Chicago first as an intern, but then became the chief operating officer of the company that probably was the pioneer in online lending, provided

consumer loans, customers in the US, UK, Australia, Brazil and China and this was where I really learned everything about fintech, about lending, about the regulations, about marketing and gained all of this experience which led me about three and a half years ago to leave and start Sunbit.

Peter: Okay, okay, and that company obviously, was that Enova, we were talking about there, right?

Arad: Correct, that's Enova International, we started small and we went public. It is right now a public company that provides hundreds of thousands loans to customers.

Peter: Okay, so then what was the catalyst, what was the idea...you know, you were working at Enova, obviously you got to know the online lending space and how it all worked, but what was the idea that led to the founding of Sunbit?

Arad: That's a great question. So, as you mentioned, I worked at Enova, I knew all the details about online lending. Also, you can hear that I'm an immigrant and, you know, as an immigrant you don't really have credit when you come to the US, you actually start as a subprime customer. Actually, when I started working at Enova, you know, I was making salary, I said this was the time to get a credit card so I went to Costco with my kids, I said, maybe I'll get a credit card right now because I can pay for it.

Applied for the credit card, you know, at the cashier...when the cashier asked me how much do I make, where do I live, my social security number and then got declined. It was pretty embarrassing to get declined in front of other people, in front of my kids, in that case, at the point-of-sale, and then I realized that it wasn't only me who got declined. Actually, it was 50% of people who apply for point-of-sale financing are getting declined and the people who do get financing, who do have credit cards sometimes pay high rates for the credit card.

I thought there should be a better way to provide financing for everybody to improve the operational inefficiency by the cost of the marketing, the cost of the fraud and give the savings back to the people. So, I thought to develop a product that will be able to allow all customers to sign up for what they need in a fair and good rate. That's how I thought about Sunbit.

Peter: Okay, you know, I think it's interesting because you came from the online world and I sort of was doing some digging about your company, it's like you really decided, it seems like, to focus on the physical point-of-sale, like what you just experienced you said at Costco. So what was the reason, even though you've got this online lending background, and you decide to focus on the physical point-of-sale?

Arad: That's a great question. You know, many people were focusing on the online, everybody is moving online and Enova was one of the pioneers in online lending, but at the end of the day, 90% of the purchases are still happening in the brick and mortar. People need to fix their car, people go to the doctor, people go to buy glasses, people go to the veterinarian and people go to buy in the mall.

When you look at the innovation, there were some good innovations online, companies that do online lending, companies that do online lending at the point-of-sale, but when you actually look at the brick and mortar, the main player there are still the credit cards. When you want to fix your car and it costs you $500 or $600, you don't really want to apply for another credit card. You don't have the time to fill out an application and at the end of this ten minutes to get declined if you are one of the two who didn't get approved.

So we saw that there was opportunity to bring machine learning and innovation and to build a unique product for the brick and mortar which will serve 80 to 90% of the purchases which many of them will stay in the brick and mortar. People will still need to go and fix the car, people will still need to go to the doctor and they have to do it face-to-face.

Peter: Right, okay. So, you just mentioned a couple of different verticals there, but can you just share the main verticals that you're focused on today, what industries is Sunbit available in?

Arad: Sure, so Sunbit products, and we'll dive into it later, allows us to basically approve customers within 30 seconds, approve nine out of ten customers while maintaining credit quality and when you think about it, it can work in any vertical. It can work for people that buy things in the mall, people that fix their car, people that buy furniture.

We like to focus on verticals that are…we call it "non-discretionary verticals", we help people to get things done and continue their life. People need to fix their car, this is one of the biggest verticals that we have, the car repair in the dealership market, with authorized dealerships with Toyota and Honda and Kia. There are a lot of people who come and fix their car and they need to go back to work. We love this vertical.

We also have verticals in healthcare, you know, in dental, in eye care, in veterinarians. People need to do it and go back to their life. Usually, sometimes this is a surprise, they didn't know they need to fix their car, they didn't know their glasses got broken and they need to get glasses because they need to continue their life and we are there to help them.

Peter: Okay, so, obviously, many of these verticals...there are other companies, I'm just curious how you...I mean, how does the process work where you...we can take the auto vertical...I mean, there are other companies offering different auto financing for not just for cars, but for car repair and that sort of thing. So, how does it work, how do you get into these established companies?

Arad: So, there are many companies that maybe offer financing for buying cars and some companies do offer financing for car repair, but when you think about car repair, when you think about fixing a car, the dealership, when you go to fix your car, a customer really doesn't have a lot of time. You want to drop your car, you want to go to work and you want to pick it up at the end of the day. You don't have the time to go and fix the car or fill out an application and spend time so we came with a value proposition that tells the merchant that with Sunbit customers can get approved within 30 seconds.

Not only that, we are able to approve almost every customer while maintaining credit card rates and while providing each customer with a better offer compared to its alternatives. So, our offer which is fast on one end, high approval from the other end and also maintains good rates basically gives us the ability to get into places where the other lenders or the credit card companies couldn't penetrate because it didn't fit into their process.

Peter: Okay, so let's dig in there for a little bit. It sounds great to be offering lower rates, higher approvals, quicker response time, but how are you able to do that? What's your underwriting like, tell us a little bit about that whole process.

Arad: That's a great question because, you know, when I started the company I said, let's make sure the loans are coming back before we scale…

Peter: Exactly.

Arad: ...you don't want to build a business...you know, you give loans and then it doesn't come back so that's a great point. Right now, we have many loans that came back because our average loan is around ten months so this was a time to start scaling and we did that about a year ago. So, how does it work? You know, the exciting thing about what we do is how we deploy machine learning and artificial intelligence into the process, not only into the underwriting process.

Because we are in the brick and mortar, we know what's going on before the customer applies. The customer that goes and fixes the car in the authorized dealership, this is a different customer that will go to fix his car in the store around the corner. This is a different customer who will go and use financing to buy jewelry or to get dental treatment so we take it all into account and that's even before the customer went to apply for the loan.

The second thing that's unique for us is because the process is so fast, basically, we scan the customer's drivers license, fill out an email and a phone number and with the click of a button they get approved. Again, scan the driver's license, phone, and email and click of a button they get approved. It feels like a payment method versus financing so we get actually more customers to apply than a customer that is really desperate to get financing and this is all before we get into the underwriting, but it all takes into account with our artificial intelligence and behavioral economics.

And then when you go to the underwriting, we underwrite the customer to the specific transaction in the specific location. So most of our loans are in the hundreds of dollars, you know, the average loan is maybe $600, $500. This is really different than when you apply for an online loan worth $10,000 or $15,000. If you think about it, let's say that our average loan is $600 on three, six or 12 months, let's say the average is ten months, which means that the average monthly payment may be fixed to $70.

When you think about the customer, whether it's a subprime customer, a near prime or a prime customer, I can tell you that many customers can figure it out to find $70 a month. So it's not

that we need to analyze if the customer has the ability to pay, everybody has the ability to find $50/$60 per month. What we are focusing is in the behavioral economics of the customer is the customer's willingness to pay.

We treat the customer well so the customer gives us back the money that they owe us. We take it all into account with sophisticated artificial intelligence and therefore, we're able to really approve almost all customers, nine out of ten customers, and provide all of them a rate which are far from the payday loan or predatory rates.

Peter: Okay, so a couple of things there before we move on. I just want to go back and you said that you do a driver's license, you said there was three things, there's no form to fill out necessarily, you only need three pieces of information and I just want to clarify that. That's it, like they're not filling out a form? Just go back and tell us these three…I remember the driver's license, you scan the driver's license, and what were the other two things?

Arad: Sure, so we provide the retailer a tablet and with this tablet the retailer would ask the customer to scan their driver's license.

Peter: Right.

Arad: From this information, we take the driver's license. In addition, the customer has to enter an e-mail, they need to have access to e-mail, of course, so we can communicate with them via e-mail, and the third thing is to have a debit card on hand. So with this debit card, we basically register the customer to a monthly recurring payment and we take a small down payment from each customer.

So with these three things, the debit card, the driver's license and access to an e-mail, we are able to approve the customer. As I mentioned, we do it in seconds, there is no form, there's no questions, nothing to fill out. Scan the driver's license, e-mail and phone number, get approved, and the debit card before we sign the contract.

Peter: Okay, so obviously, there's a lot of information you can get from just those data points. I'm curious about like the 90% number, so is it because...there's no way in the world an online operation could duplicate this and I think the thing I think that's interesting is it's because this is offline because this is face-to-face.

If you have taken your car to the car dealership, you obviously are not...you have an asset for a start, you have a car and so I'm guessing that because this is face-to-face that takes away a lot, I imagine, of the fraud piece where someone's trying to scam you. They're not trying to get a loan to go blow money in Vegas, they're trying to get a loan to actually do something. I just want to dig more into the 90%, it's because this is not deep subprime, this is more mid-prime, is that right?

Arad: I think you nailed it. Our mission as a company, we call it "to eliminate the waste and give it back to the consumer" and when we say eliminate the waste we mean, if you were able to get

a customer without fraud so you don't penalize your other customers, they don't need to pay for the guy who committed the fraud. The fact that we are in the brick and mortar, the fact that we know that the customer came to fix the car. As you mentioned, they have a car, and by the way, when they came to fix the car, they knew they were going to pay something, right, that's why they came to fix the car so they have something in their pocket so they are willing to pay.

On the top of it, with the driver's license and the debit card, we have a lot of information that we can compare and to make sure that this is the right person, this is the right reason to use it and as you mentioned, we do not transfer the money to the consumer, we actually transfer the money to the merchant. So, this allows us to really reduce a lot of the fraud, a lot of the waste.

In addition, we don't go direct to the consumer, we basically go to the merchant, but the merchant actually helps the consumer…the merchant is able to sell more by closing more transactions and we get more consumers and we pass the savings back to the consumer, give them a better rate compared to the alternatives.

Peter: Right.

Arad: With this savings, we are able to really approve all customers. We do go to some subprime, we go down to 500 credit score and thin file, we approve all of these, and we do not go above the credit card rate.

Peter: Okay, okay. So, who are these people? You said you go under 520, I mean, you talked about yourself being an immigrant. I am an immigrant as well, I had a similar problems when I moved to this country many years ago. So, just give us a little bit of...more information about these customers that are applying for loans.

Arad: So first of all, I would say that when you work with a brick and mortar, you need to be able to serve all customers and that's what we do, we serve all customers across the credit spectrum because when a customer goes to fix a car at the car dealership, it's not like they have a sign, I am a subprime, I am a near-prime or I'm a prime customer and we work with our partners which is the merchant which helps them increase the sales by providing financing to all customers.

So we do have customers across the credit spectrum. We do have customers that are prime and super prime and even though they do have in their pockets, I'm sure they have great credit cards with a high credit limit. Because of the ease of application and the driver's license, e-mail and phone number, they will try it and then when we see that they are there, we'll give them an offer which is much better than the credit card so we do have customers across the credit spectrum.

When you look at the entire portfolio, of course, we have more customers that are near and subprime just because this is the loan amount of $500 to $600, but when you look at the entire book, our book, average book, is in the near prime which means we do have customers in the prime and super prime.

Peter: Okay, so what are the terms…. I think you mentioned ten months, $600 whatever, what are the interest rates and are you charging like an origination fee, what are the terms of these loans?

Arad: Sure, first of all, we like to be transparent with the consumer. There is no origination fee, there is no extra fee other than the straight interest of the installment loan that we provide the customer and it's all clear in the process and every customer sees it right away. For each customer we give a personal loan, usually loans are...the APR is 9% up to 36% and each customer gets a different rate, a different approval amount and as I mentioned before, a different down payment to put on the debit card.

So, if you're a prime customer, you'll probably get maybe 9 or 10 or something in the teens which is better than your credit card rate. If you're a subprime customer, you might get 29 or up to 35.99%, but it's much better than your other options to go to a payday loan and take in the hundreds of APR for this loan.

Peter: Okay, and then what can you tell us about the performance of these loans because if you're...like there might be people that are willing to pay, but something happens, they lose their job or whatever, I mean, we know that these things happen. I'm curious about...I know you haven't been lending a long time, but these are fairly short durations so tell us a little bit about the loan performance, if you would.

Arad: Sure of course, so we've been lending for almost three and a half years so we do have a lot of loans that came back and we do have a happy portfolio. We see performance on par with the prime groups of the online lenders. Our loss rate is on par with what you see from LendingClub or Prosper which is in the public market.

When we underwrite people, it's really across the credit spectrum and the reason is that one, as we mentioned, we use artificial intelligence to underwrite the customer to the right amount, to the right duration, to the right transaction specifically, and also, we underwrite for three, six to 12 months.

It's much different than underwriting a customer for three or five years so altogether, with the process that is fast, transparent and small dollar amount, allows us to really, basically, serve customers across the credit spectrum and basically have loss rates of a prime book which gives us a really healthy IRR for the business.

Peter: I'm sure, and so because you're working with brick and mortar, you're serving your customers' customer in a way, how are you getting...I imagine, this is somewhat labor intensive, you've got to go out to these brick and mortar places to get them to offer your products...I mean, and then really it's up to you to…they just want you to approve everyone because they want to do the business, but how are you getting into the different retailers you're working with?

Arad: So you mentioned that they want to approve everyone which I agree with. The brick and mortar...I think, in order to be successful in the brick and mortar, you need to have high approval

rates and you need to have overall low APR, you don't want to be in the predatory world which is what I think is unique about Sunbit because we are able to approve everybody while maintaining credit card rates.

As you mentioned, it does require us to actually have boots on ground and be in the brick and mortar location. So it is …(inaudible)…and make it happen, you need to go there, you need to train them, you need to serve them and you need to work with our partners which is the brick and mortar stores to basically help them help their customers which will become our customers. We developed a tool, we developed a theme here so, basically, to be able to grow the business.

We are right now operating in more than 40 states in the country so we actually have locations that use and offer Sunbit in 40 states and we developed a tool to work with them, to train them, to communicate with them, to communicate not only with the manager, but also with the associates in the store in a nice way, in an electronic way also using machine learning and artificial intelligence to encourage people to offer, to give a good word if they did offer, if they did close a transaction and to work with them hand in hand to basically help them sell and get more customers for them and for us.

Peter: And then, are you working with an originating bank to actually issue these loans?

Arad: Yes, we do have a charter bank that's working with us and helps us to originate the loans.

Peter: Right, okay. I want to switch gears to the capital providing for these loans. I know that you have Eric Thaller, who many of the listeners would know from his time at Prosper, he's your Chief Capital Officer there, but can you just tell us where the capital for these loans is coming from?

Arad: Of course, sure. We are fortunate that Eric could join us after his experience at Prosper marketplace. Right now, we have a debt facility that we use to fund the loans and our strategy says first, who can you underwrite a loan that the loan would perform, what do we mean, like have skin in the game, show that the loans will perform and now, we use this debt facility and in the future we are going to diversify our funding sources with maybe more debt facilities, selling some forward flow and other options.

Peter: Okay, so then I read recently that you raised, I think it was $26 million in a Series B, tell us a little bit about that process, you know, who is backing you and what it was like going out and raising that money.

Arad: So, we just raised another $26 million, the round was led by the Zeev Ventures and Oren Zeev which is the general partner, he has invested in the past. He is known in Silicon Valley and invested in companies like Audible, Chegg and in later fintechs like TripActions, which is a really successful company. In addition to him, we were fortunate to have investors from really day one who loved the story and were with us from really the seed level to the round A which is different investors, mostly Group 11 which is based out of Los Angeles and focused on fintech and Chicago Venture based out of Chicago and, basically, have deep understanding of fintech and

retail. They were with us alongside from day one and now with the investment of Zeev Ventures we're excited to have investors that support us on this mission.

Peter: Sure, so we're almost out of time, but before I let you go, I'm curious about what your mission is here, what the future holds for you guys. Maybe you could give us some sense of what you're working on in the short term and where you want to be in the long term.

Arad: Of course, as I mentioned, our vision is really what we call "eliminate financial waste and give back to the people," Eliminate the operational inefficiency and give back to the people, whether it's for consumers, by giving them a better offer, or for merchants and partners by giving them more tools. We started here about three and a half years ago, small and now, we're scaling.

With this capital in the short term, we want to scale, you know, the car vertical which is our leading vertical and we are scaling very nicely on this one. We are also looking for other verticals which we are looking at scaling and this is what we're going to do in the next 12 months. In the future, we're going to add more products, both for the consumers and for the merchants. So basically focused on leveraging technology to eliminate the waste, increase operation efficiency and give the savings back to the consumers.

Peter: Okay, that is a laudable mission and I wish you all the best. Thank you very much for coming on the show today, Arad.

Arad: Thank you very much, Peter, it was great having been here.

Peter: Okay, see you.

You know one of the keys, I think, to be successful at the point-of-sale is you've got to make it as frictionless as possible for the customer. They don't want to fill out a long form, particularly for something that's under $1,000, they just want to get the loan and get out of there. The fact that Sunbit is really focused on that and they've got just three pieces of information that they're gathering and that points to the how they're able to get all the different data sources that are available today for lenders like Sunbit really makes it possible that they can take just the small numbers of data points and be able to make an accurate credit decision. That would not have been possible a few years ago and certainly, Sunbit is taking advantage of the situation today.

The fact that they can do that and maintain a low default rate, that's going to be the big thing, I think, as they scale to really be able to maintain that default rate that really is...it's pretty impressive, what they've been able to do.

Anyway on that note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye.

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